



## **RISK REVIEW**

FIRST QUARTER 2004

### **M.G. MAILA**

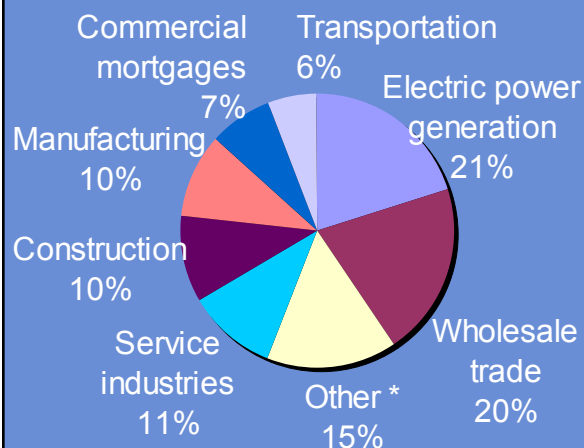
*Executive Vice-President, Enterprise  
Risk and Portfolio Management*  
Investor Community Conference Call  
February 24, 2004

First Quarter  
F2004

## *Credit and Counterparty Risk Highlights*

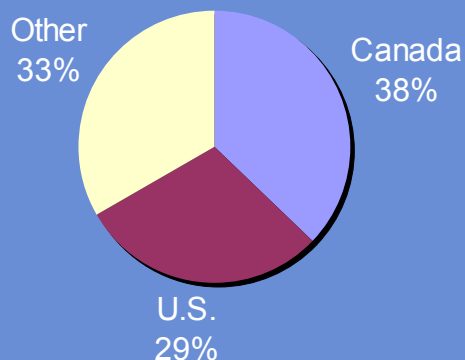
- New Gross Impaired Loan (GIL) Formations for the quarter decreased \$155 million from Q4 2003
- Specific Provision for Credit Losses (PCL) is \$55 million for the quarter, down from \$150 million a year ago and \$95 million last quarter
- Total PCL is \$15 million which includes a reduction of \$40 million in the General Allowance
- Revised Specific PCL guidance for F2004 of \$300 million or less, reflects improving credit environment and favourable Q1 results

## Q1 2004 Formations By Sector

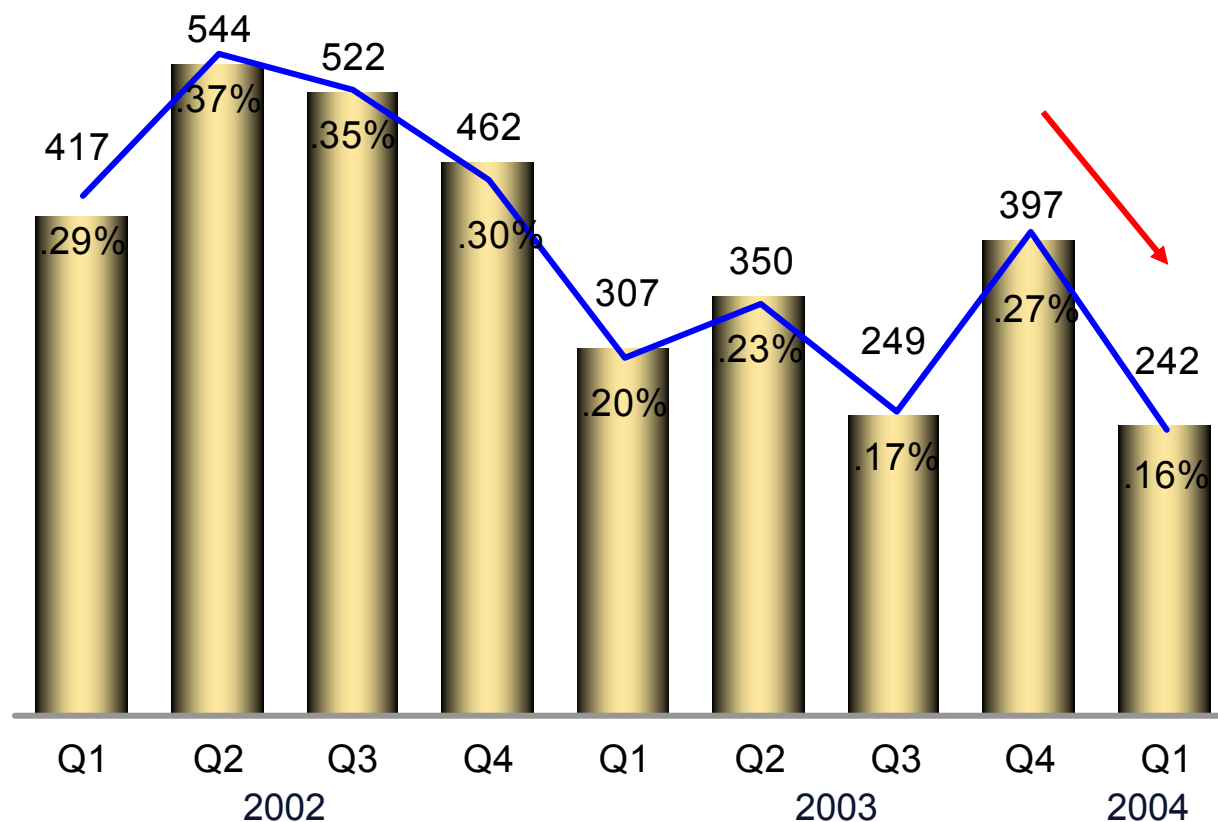


\* Includes numerous sectors none of which exceeds 5% of total gross formations.

## By Geography



**Formations** of Gross Impaired Loans (GIL's) are down \$155 million or 39% from prior quarter and...



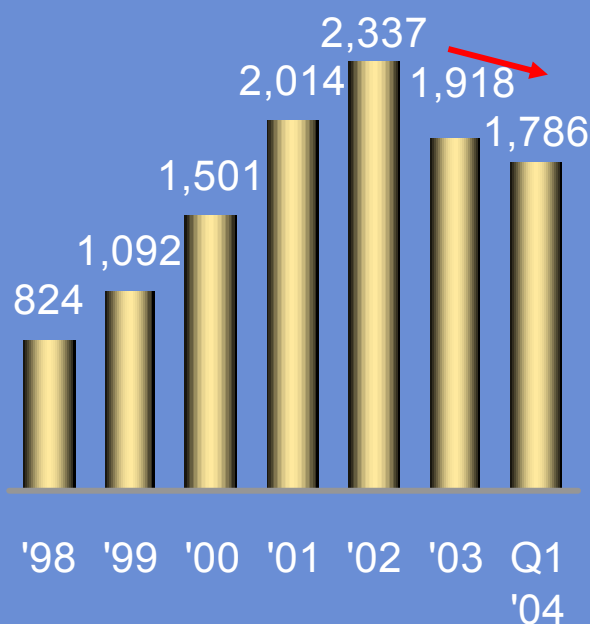
Formations (C\$ Million)



Formations as a % of Gross Loans & Acceptances (including reverse repos)

## Gross Impaired Loans

C\$ Million



*... the impaired portfolio continues to be managed proactively, resulting in further reductions in GIL balances*

C\$ Million

	Q1 2004	Q4 2003	Q1 2003
Repayments	117	171	128
Sales*	139	85	9
Other Reductions**	9	81	73
Reductions in GIL's	265	337	210
Write-Offs	109	185	152
<b>Total Reductions in GIL Balances</b>	<b>374</b>	<b>522</b>	<b>362</b>

\* Sales of impaired loans are net of write-offs.

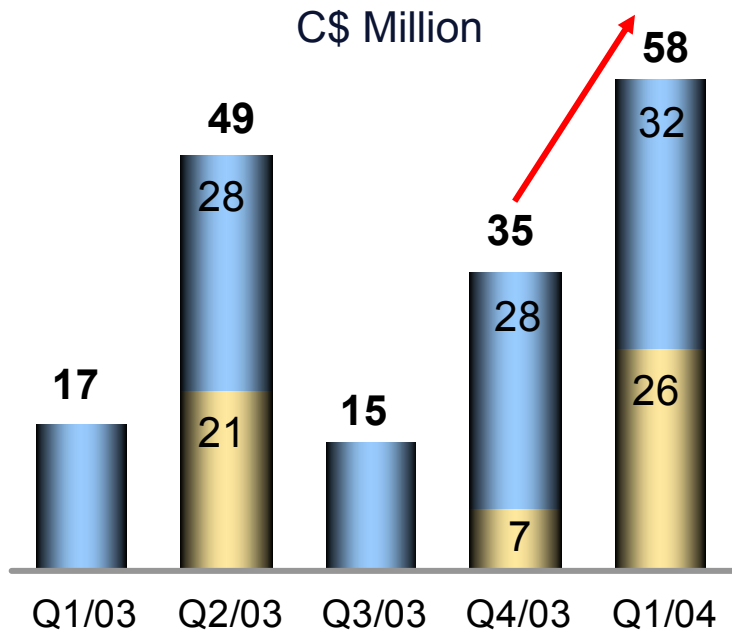
\*\* Includes loans returned to performing status and foreign exchange rate changes.

***Recoveries** of prior write-offs and reversals of specific provisions on sales of impaired loans increased substantially this quarter . . .*

*. . . and contributed to the decline in Specific PCL*

Recoveries of Prior Write-Offs and Reversals of Specific Provisions on Sales of Impaired Loans

C\$ Million

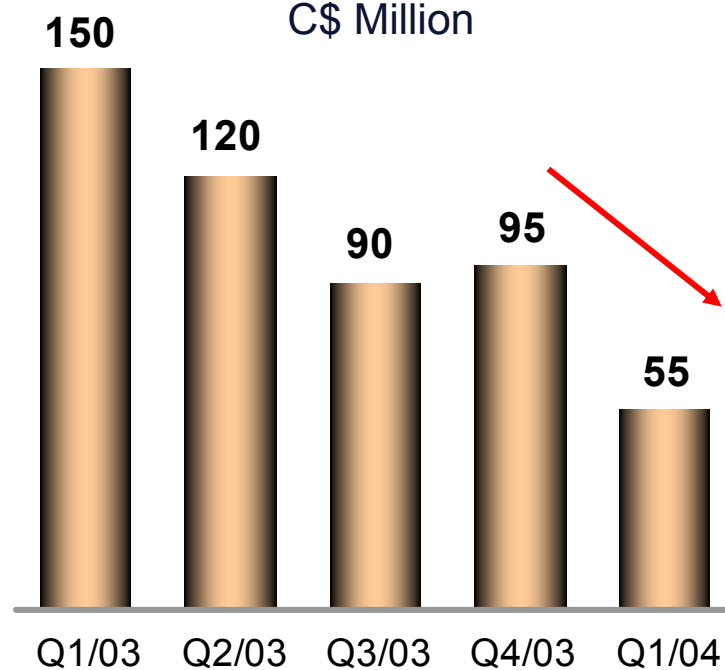


Recoveries of Prior Write-Offs

Reversals of Specific Provisions on Sales of Impaired Loans

Specific Provision for Credit Losses (PCL)

C\$ Million



***Lower PCL** this quarter reflects continued improvement in credit performance and the \$40 million reduction of the General Allowance*

<u>Portfolio Segment</u>	<u>Provision for Credit Losses (C\$ Million)</u>		
	<u>Q1 F2004</u>	<u>Q4 F2003</u>	<u>Q1 F2003</u>
Consumer	42	37	36
Commercial	22	24	20
Corporate			
U.S.	4	45	40
Canada and International	(13)	(11)	54
	<u>(9)</u>	<u>34</u>	<u>94</u>
Specific Provisions	<u>55</u>	<u>95</u>	<u>150</u>
Reduction of the General Allowance	(40)	-	-
Total PCL	<u><b>15</b></u>	<u><b>95</b></u>	<u><b>150</b></u>
Specific PCL as a % of Avg Net Loans & Acceptances	15 bps	25 bps	39 bps

## Revised PCL Guidance for F2004

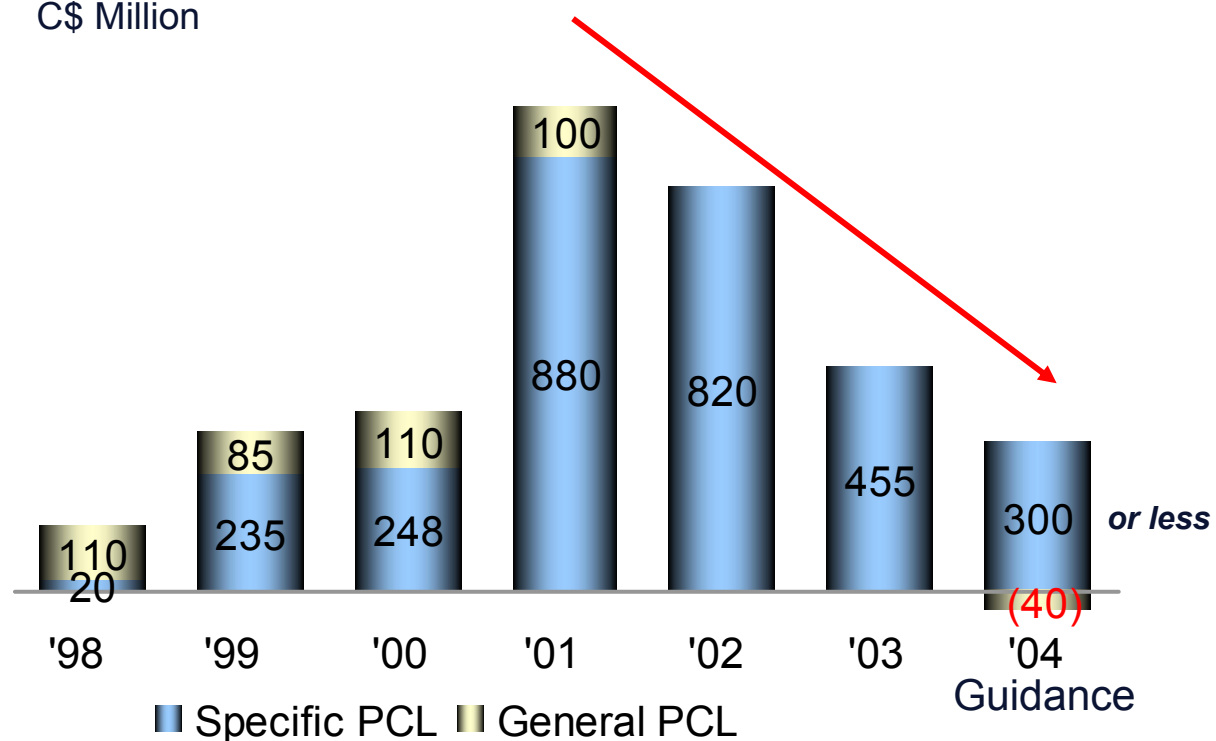
Favourable Q1 credit performance and improving environment

Q1 F2004 is the third consecutive quarter with Specific PCL of \$95 million or less

*F2004 Specific PCL guidance has been revised to \$300 million or less*

## Provision for Credit Losses (PCL) Annual

C\$ Million

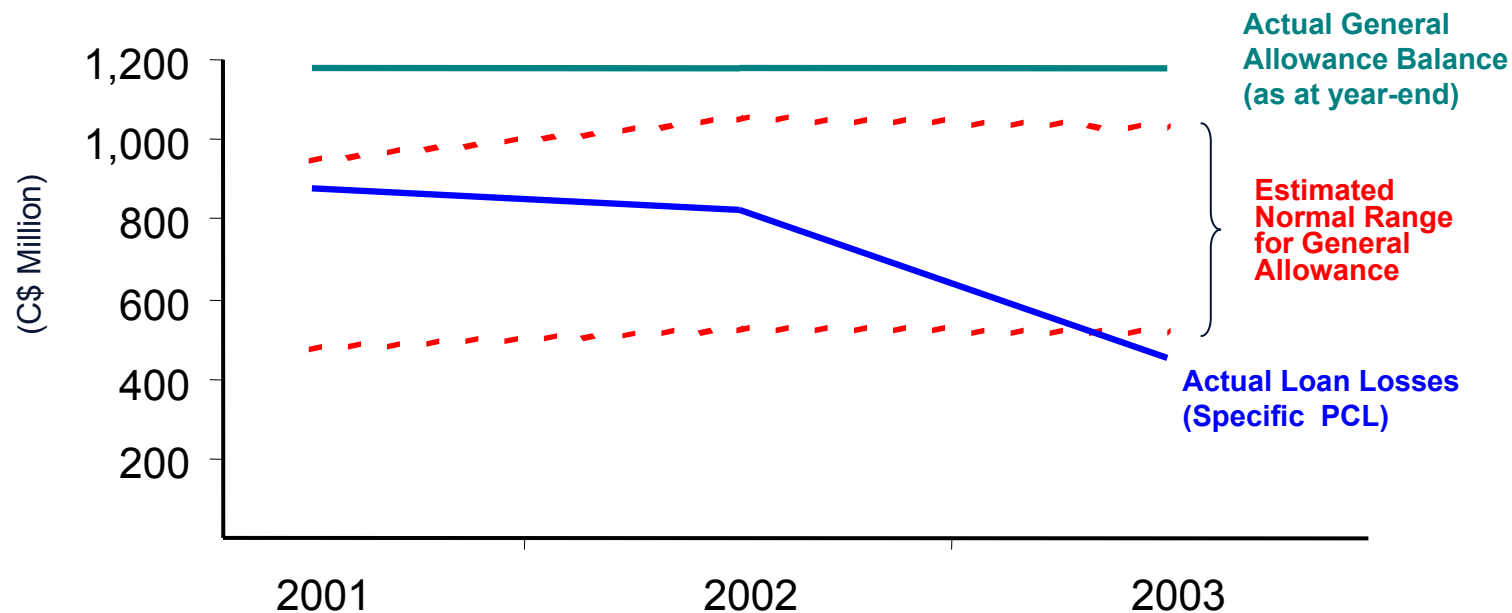


*The level of the General Allowance is assessed quarterly on a consistent basis, taking into consideration . . .*

- The mean (“Expected Loss”) and volatility (“Unexpected Loss”) of credit loss experience based on a statistical analysis of past performance
- Management’s judgment regarding portfolio quality, business mix and economic and credit market considerations
- OSFI Guidelines
- Canadian GAAP

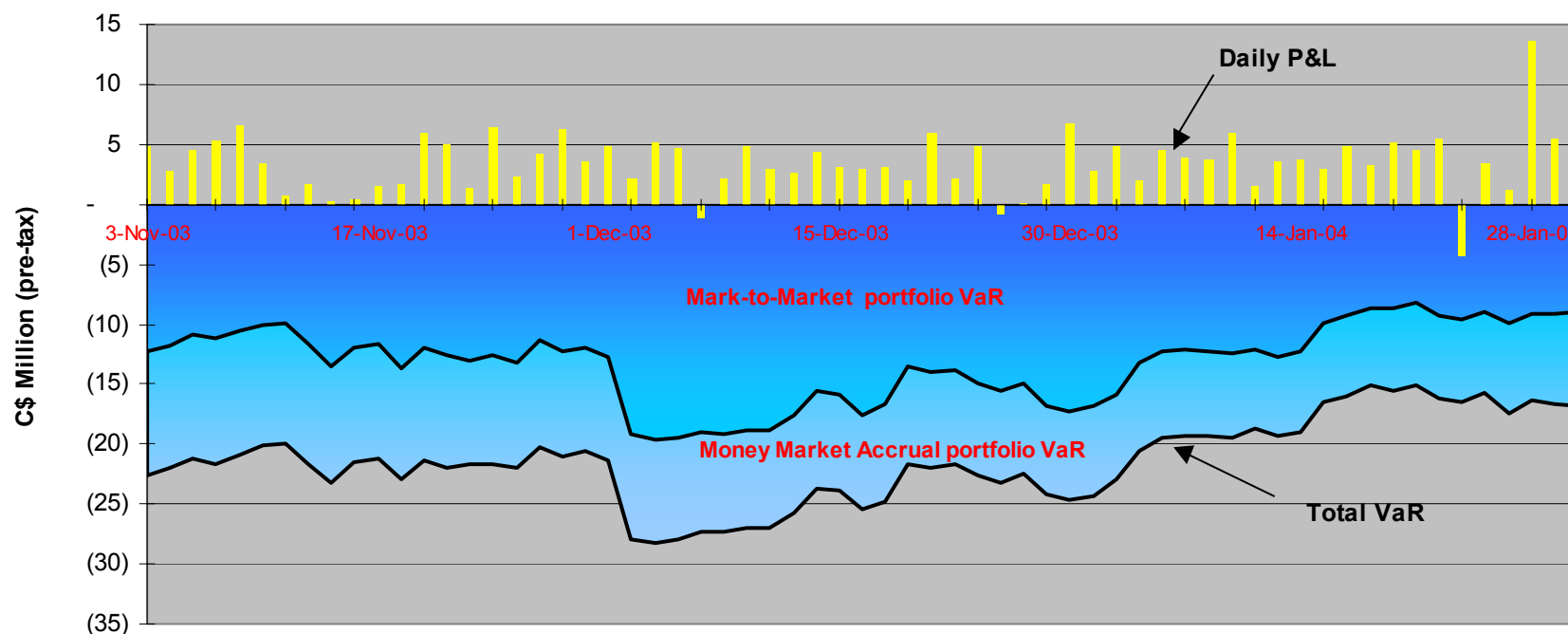


*... and our policy* is to ensure the adequacy of the General Allowance throughout the business and credit cycles



# Trading and Underwriting Daily P&L versus Value at Risk

**Daily P&L versus Value at Risk (VaR)**  
**November 1, 2003 to January 31, 2004**  
 (presented on a pre-tax basis)



During the quarter, we implemented our Comprehensive Value at Risk model for market risk management and reporting purposes, for the trading and underwriting mark-to-market portfolio. The model better reflects the correlations and offsets that exist within and between different classes of market risk and methodology improvements for more complex trading products. This has resulted in a reduction of reported value at risk levels for the trading and underwriting mark-to-market portfolio relative to the previous quarter. During the quarter, we submitted the model to our regulator and are currently awaiting approval for its use in calculating regulatory capital. The reduction in the risk level for the trading and underwriting money market accrual portfolio relative to the previous quarter is also primarily due to improvements in our measurement methodologies. Otherwise, there have been no material changes to risk practices in the quarter.

(Refer to Supplementary Financial Package page 33 for risk data - presented on an after tax basis)



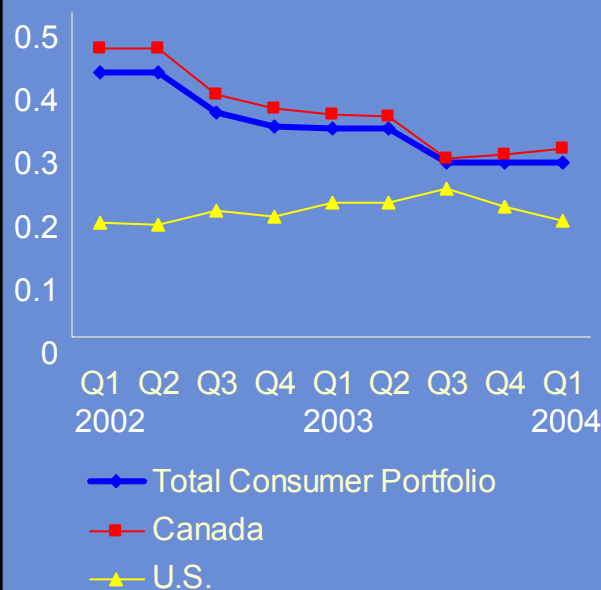
BMO  Financial Group

*Appendix*

## *Appendix*

12. Loan Portfolio Distribution – Consumer/Commercial/Corporate
13. Cattle Farming and Related Sectors (Canada)
14. Electric Power Generation
15. Automotive Manufacturing and Supply
16. Specific Provisions for Credit Losses as a % of Average Net Loans and Acceptances (including Reverse Repos) – BMO vs. Canadian Competitors
17. Structural Balance Sheet: Market Value Exposure and Earnings Volatility
18. Frequency Distribution of Daily Trading and Underwriting P&L

## Consumer Portfolio Delinquency Ratio (%)\*



\*% of portfolio which is 90 days or more past due

(Refer to the Supplementary Financial Package page 24)

## Loan Portfolio Distribution – Consumer / Commercial / Corporate

Total Gross Loans and Acceptances\* (C\$ Billion)

As at January 31, 2004

	<u>Canada</u>	<u>U.S.</u>	<u>Other</u>	<u>Total</u>	
Consumer					
Residential Mortgages	45	5	-	50	37%
Personal Loans	16	7	-	23	16%
Cards	3	-	-	3	2%
Total Consumer	<u>64</u>	<u>12</u>	<u>-</u>	<u>76</u>	<b>55%</b>
Commercial	28	5	-	33	24%
Corporate	<u>6</u>	<u>20**</u>	<u>2</u>	<u>28</u>	<u>21%</u>
Total	<u>98</u>	<u>37</u>	<u>2</u>	<u>137</u>	<b>100%</b>

\* Excludes reverse repos

\*\* Includes Harris Nesbitt mid-market portfolio of \$7 billion

## Cattle Farming and Related Sectors (Canada)

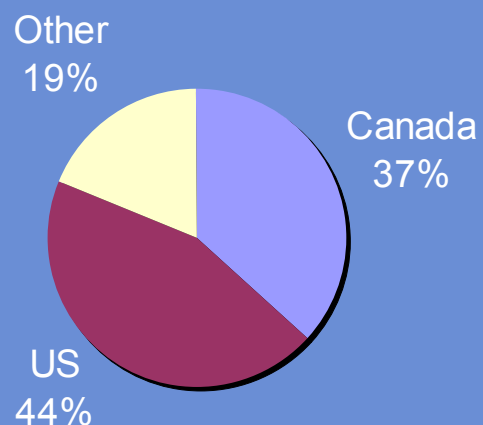
C\$ Million as at January 31, 2004

	Total Gross			Performing Portfolio	
	Loans & BA's	Gross Impaired	Net Impaired	"Investment Grade"	"Non- Investment Grade"
Livestock, Field Crop and Horticultural	624	11	10	346	267
Feedlots and Cow/Calf Operations	552	13	7	248	291
Other Related Sectors	239	4	3	74	161
Total	1,415 *	28	20	668	719

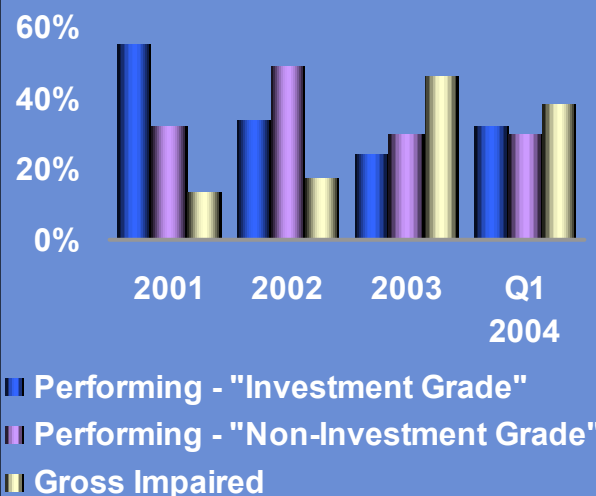
\* Represents 1% of the total loan portfolio (excluding reverse repos).

(Exposure to Cattle Farming and Related Sectors is included as part of the Wholesale Trade (Food and Beverage), Manufacturing (Other) and Agriculture categories in the Supplementary Financial Package. Refer to pages 26, 29 and 30.)

## Gross Loans & Acceptances by Geography



## Portfolio Migration (%)



## Electric Power Generation

C\$ Million as at January 31, 2004

	Total Gross Loans & BA's	Gross Impaired	Net Impaired	Performing Portfolio	
				"Investment Grade"	"Non- Investment Grade"
Diversified and Regulated	416	57	20	190	169
PPA* Projects	234	69	49	93	72
Merchant Projects	240	215	141	-	25
<b>Total</b>	<b>890**</b>	<b>341***</b>	<b>210</b>	<b>283</b>	<b>266</b>

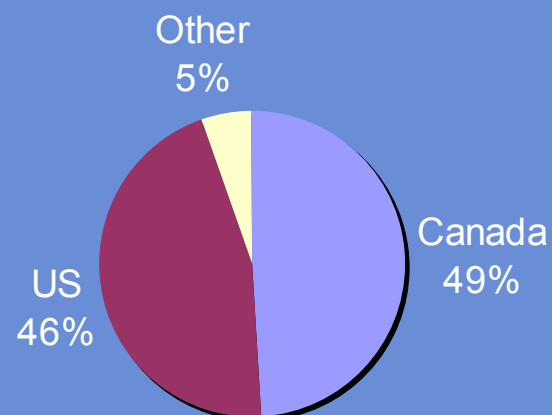
\* Power Purchase Agreement

\*\* Represents 0.7% of the total loan portfolio (excluding reverse repos).

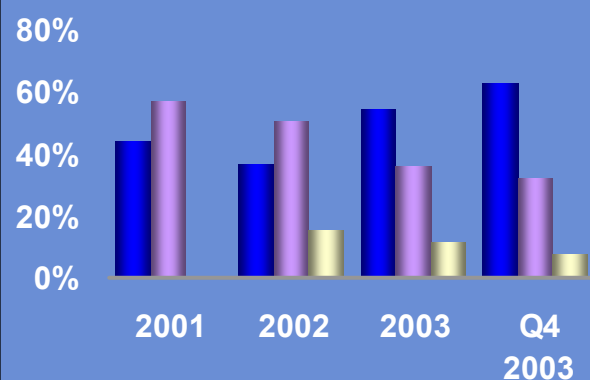
\*\*\* U.S. 54%, Other 46%

(Refer to the Supplementary Financial Package pages 26, 29 and 30)

## Gross Loans & Acceptances by Geography



## Portfolio Migration (%)



■ Performing-'Investment Grade'  
■ Performing-'Non-Investment Grade'  
■ Gross Impaired

## Automotive Manufacturing and Supply

C\$ Million as at January 31, 2004

	Total Gross Loans & BA's			Performing Portfolio	
	Gross	Net		"Investment Grade"	"Non-Investment Grade"
Suppliers	454	41	35	249	164
Motor Vehicle Manufacturing	150	-	-	126	24
Total	604 *	41 **	35	375	188


\* Represents 0.4% of the total loan portfolio (excluding reverse repos).

\*\* U.S. 100%

(Refer to the Supplementary Financial Package pages 26, 29 and 30)



## Specific PCL's as a % of Average Net Loans and Acceptances (including Reverse Repos)

%	BMO	 Cdn. Competitors
F2003	.30	.53
Q1/04	.15	N/A
14 yr av.	.41	.63

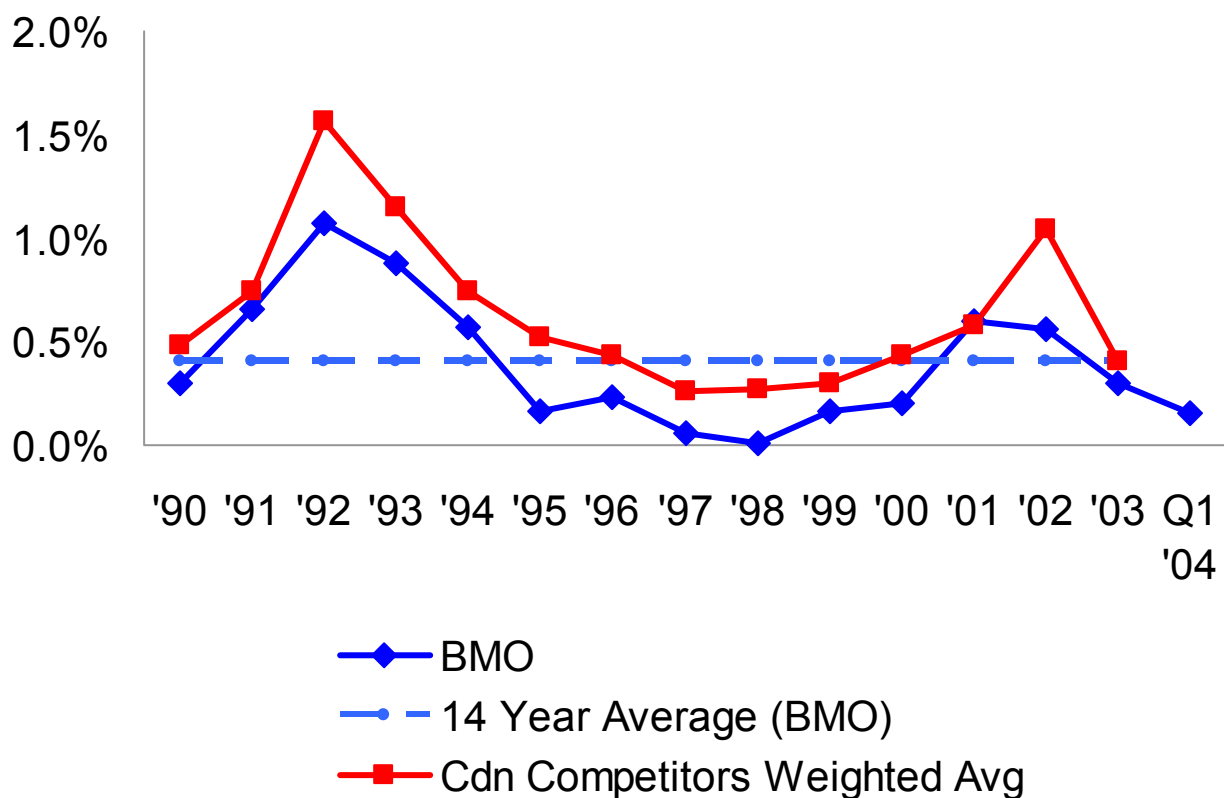
BMO's Canadian competitors include: RBC, BNS, CIBC, TD and National.

Competitor average excludes the impact of TD's sectoral provisions in F2002 and subsequent transfers/drawdowns.

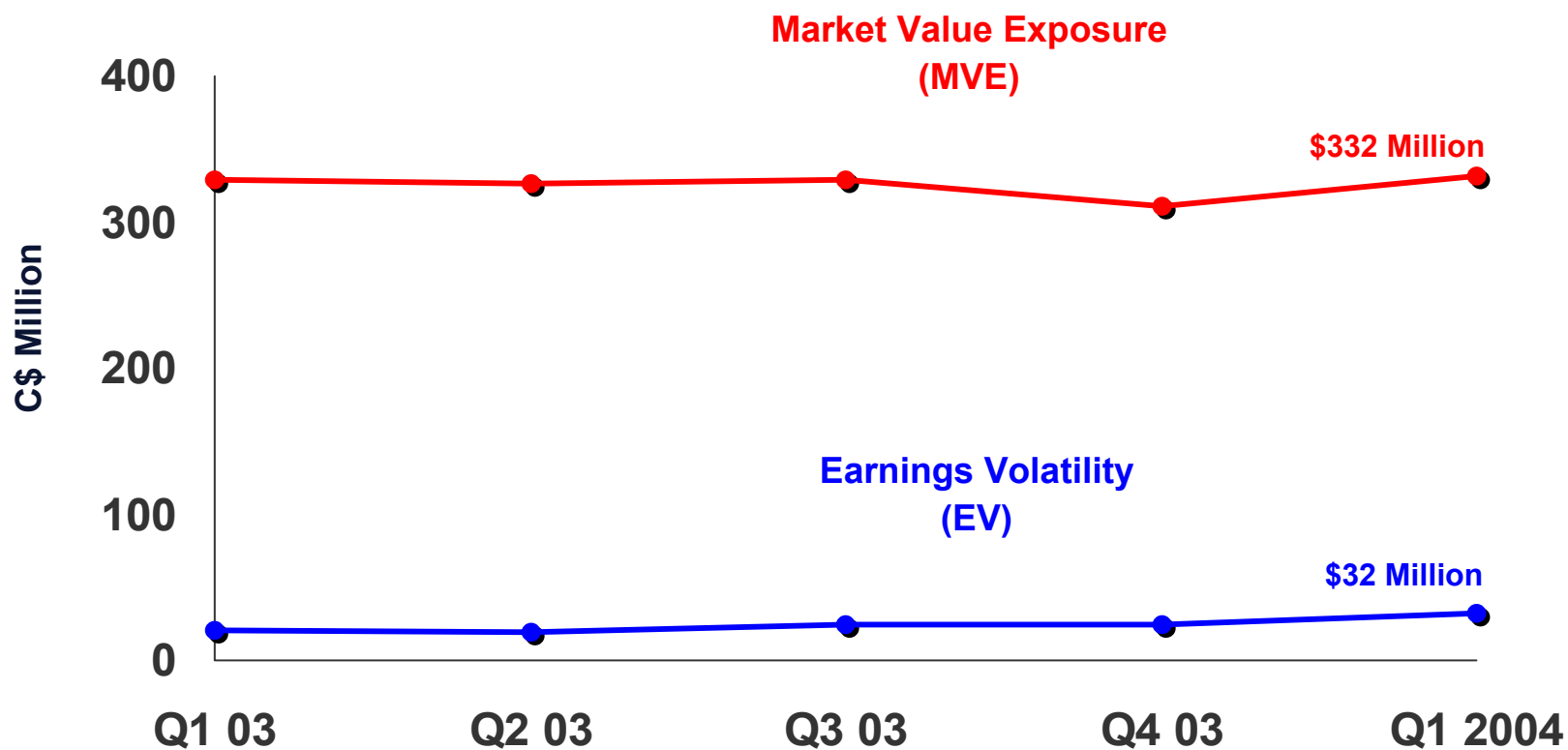
14 yr av. - 1990 to 2003

## Credit Performance Measure

### Specific Provision for Credit Losses as a % of Average Net Loans and Acceptances (including Reverse Repos)



## *Structural Market Risk:* Market Value Exposure and Earnings Volatility

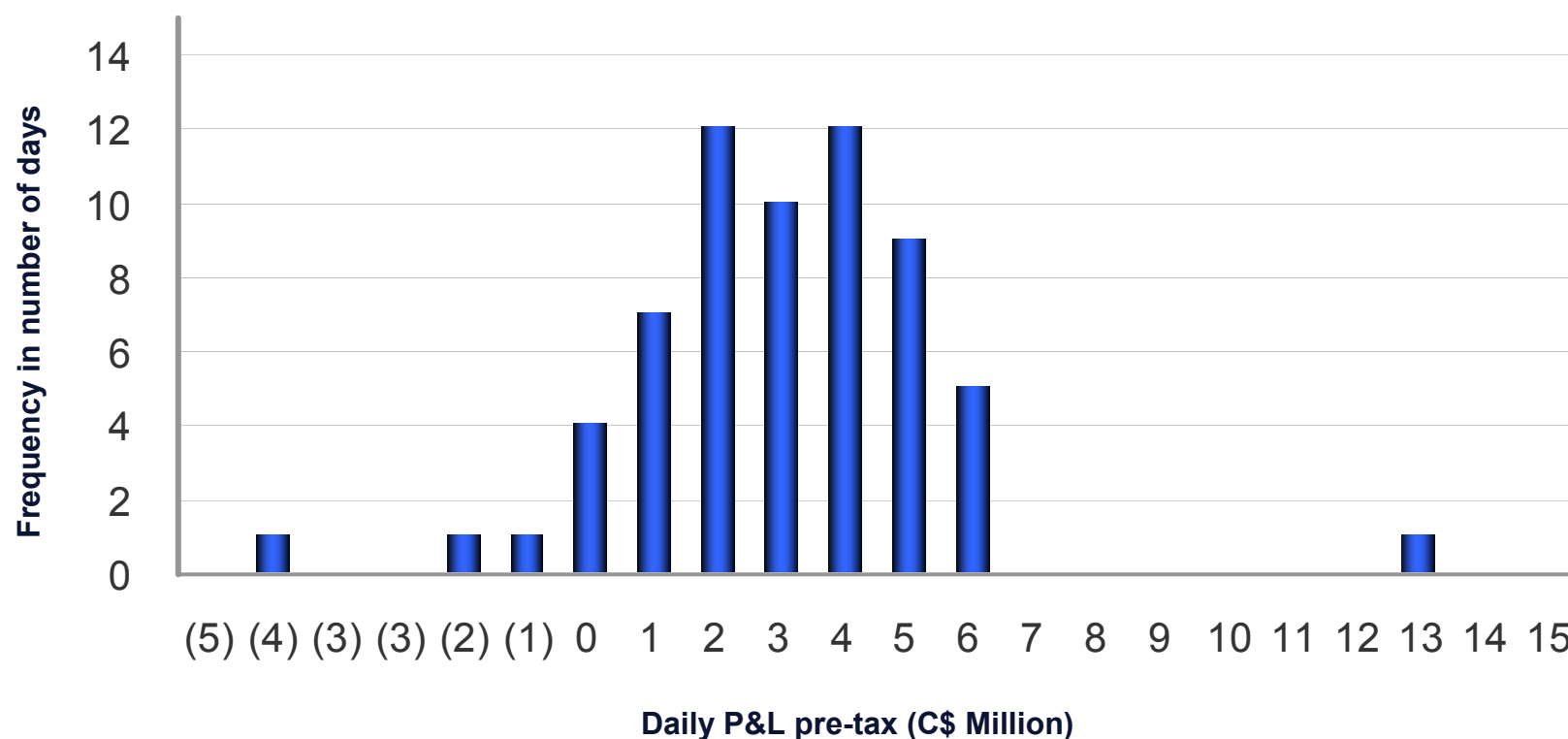


(Refer to Supplementary Financial Package page 33 for definitions and risk data)

## *Frequency Distribution of Daily Trading and Underwriting P&L*

Frequency Distribution of Daily P&L for Trading and Underwriting  
Portfolios

November 1, 2003 to January 31, 2004



# Forward-Looking Statements

## **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

*Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this presentation, and may be included in filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the 'safe harbor' provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives for 2004 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and U.S. economies.*

*By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.*

*The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: global capital market activities; interest rate and currency value fluctuations; the effects of war or terrorist activities; the effects of disease or illness that impact on local, national or international economies; the effects of disruptions to public infrastructure, such as transportation, communications, power or water supply disruptions; industry and worldwide economic and political conditions; regulatory and statutory developments; the effects of competition in the geographic and business areas in which we operate; management actions; and technological changes. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statement, whether written or oral, that may be made, from time to time, by the organization or on its behalf.*

### **Investor Relations**

**Susan Payne**

**416-867-6656**

**[susan.payne@bmo.com](mailto:susan.payne@bmo.com)**

**Lynn Inglis**

**416-867-5452**

**[lynn.inglis@bmo.com](mailto:lynn.inglis@bmo.com)**

**Amanda Mason**

**416-867-3562**

**[amanda.mason@bmo.com](mailto:amanda.mason@bmo.com)**

**Fax**

**416-867-3367**

**Email:**

**[investor.relations@bmo.com](mailto:investor.relations@bmo.com)**